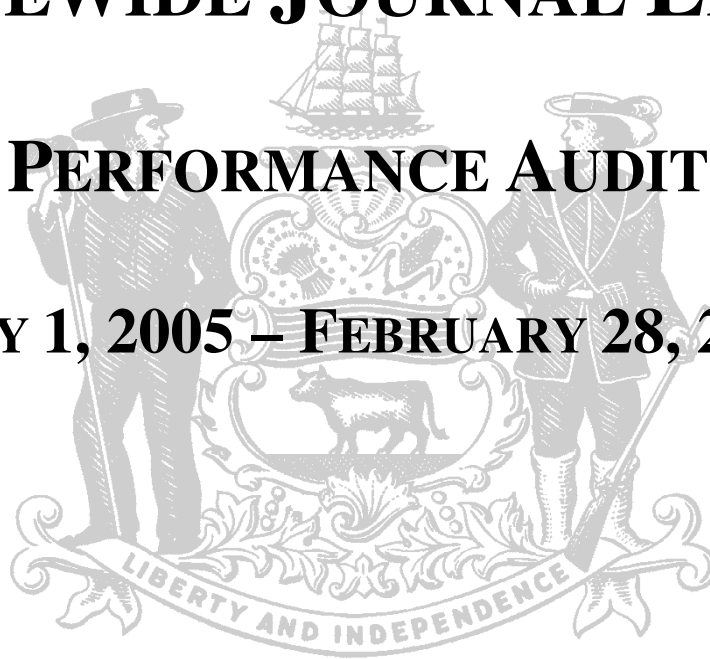


**STATE OF DELAWARE**  
**OFFICE OF**  
**AUDITOR OF ACCOUNTS**

**STATEWIDE JOURNAL ENTRY**

**PERFORMANCE AUDIT**

**JULY 1, 2005 – FEBRUARY 28, 2006**



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# EXECUTIVE SUMMARY

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## **BACKGROUND**

All financial transactions executed by the State of Delaware are evidenced by Delaware Financial Management System (DFMS) forms completed at the agency/department/division initiating the transaction. Normal cash receipt and cash disbursement transactions are entered using cash receipt (CR) and payment voucher (PV) documents. However, there are non-cash receipt and disbursement transactions, such as transfers or corrections, that are entered using other documents, such as cash adjustment (CA), expenditure correction (EX), intergovernmental voucher (IV), journal voucher (JV), and requests for transfer (TA) documents. These documents are defined in Appendix K of the State of Delaware *Budget and Accounting Manual*.

The following table summarizes, by document type, the number of documents processed Statewide and the dollar value of those transactions Statewide for the period July 1, 2005 through February 28, 2006:

<b>Document Type</b>	<b># of Transactions</b>	<b>Dollar Amount (\$)</b>
CA	2,065	336,925,284
EX	5,187	214,222,385
IV	1,150	-
TA	690	900,297,386
JV	834	559,612,429
<b>TOTAL</b>	<b>9,926</b>	<b>2,011,057,484</b>

## **AUDIT OBSERVATIONS AND CONCLUSIONS**

There were three objectives of the Statewide Journal Entry Performance Audit:

- (1) To determine if the agencies/departments/divisions selected for testing have the internal control structure in place to ensure CA, EX, IV, JV, and TA transactions are in accordance with the State of Delaware *Budget and Accounting Manual*.
- (2) To determine if the agencies/departments/divisions selected for testing are using CA, EX, IV, JV, and TA documents in accordance with the State of Delaware *Budget and Accounting Manual*.
- (3) To analyze reasons CA, EX, IV, JV, and TA transactions are used by the agencies/departments/divisions and recommend how these transactions should be utilized in the new PeopleSoft financials.

The agencies/departments/divisions reviewed did not have the internal control structure in place to ensure CA, EX, IV, JV, and TA transactions were made in accordance with the State of Delaware *Budget and Accounting Manual*, nor did the agencies/departments/divisions use CA, EX, and IV documents in accordance with the State of Delaware *Budget and Accounting Manual*. Internal control weaknesses exist at both the oversight level and within the individual agencies/departments/ divisions reviewed. Brief summaries of these weaknesses are as follows:

- Most agencies/departments/divisions selected for review did not have internal written policies and procedures for the processing of journal entry type transactions.

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# EXECUTIVE SUMMARY

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- Monthly reconciliations of DFMS activity are not performed consistently, if at all, throughout the agencies/departments/divisions.
- DFMS users throughout the agencies/departments/divisions reviewed have access to scan, enter, correct, and delete transactions and apply both the first and second levels of approval in DFMS to these transactions. In addition, Cape Henlopen School District and DOE allow users to log onto DFMS as other users in order to apply the approvals necessary to process transactions.
- At several agencies/departments/divisions, there is one person who has the ability to prepare financial documents, sign the documents, enter the transaction into DFMS or OMS, apply approval in DFMS or OMS, and prepare the monthly reconciliations. In many cases, a person independent of the process does not review monthly reconciliations. These situations result in a lack of segregation of duties and an increase in control risk within the agencies/departments/divisions.
- Facsimile signature stamps were used as authorization on 68 transactions of the transactions review. These transactions were valued at \$93,665,764.
- 1,371 transactions, valued at \$1,257,965,384, were reviewed at the agencies/departments/divisions selected. Of those transactions:
  - 318 transactions, representing \$265,380,494, did not have supporting documentation. In addition, five documents, valued at 743,473, could not be located.
  - 66 transactions, representing \$6,574,507, did not have proper authorization.
  - 247 CA, EX, and IV transactions, representing \$34,854,579, were used inappropriately based on the definitions of the documents per the State of Delaware *Budget and Accounting Manual*.

The Office of Auditor of Accounts (AOA) discussed the impact of DFMS' CA, EX, IV, JV, and TA transactions with the PeopleSoft Financial General Ledger Project Team. Based on discussions with the team and the results of our audit, the Division of Accounting needs to proactively address the following concerns:

- Consistency of processing similar transactions throughout the State.
- Indirect and cost allocation accounting throughout the State.
- Allowing flexibility in budgetary control versus line item spending.
- Controlling security access within the system to properly segregate duties and reduce the risk of misappropriation of funds.
- Ensuring journal entries made by agencies are made in the subledger and are directly related to the initial transaction that was processed.
- Centralizing all journal entries made directly to the general ledger.
- Allowing payroll appropriations to become negative throughout the year.

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# AUDIT AUTHORITY

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Title 29, Del. C. c. 29 authorizes the Auditor of Accounts to perform post audits of all the financial transactions of all State agencies. The law requires that the audits be made in conformity with generally accepted auditing principles and practices. Such principles and practices are established by two standard setting bodies: the American Institute of Certified Public Accountants (AICPA), which has issued generally accepted auditing standards; and the U.S. General Accounting Office (GAO), which has issued generally accepted government auditing standards.

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# BACKGROUND

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All financial transactions executed by the State of Delaware are evidenced by Delaware Financial Management System (DFMS) forms completed at the agency/department/division initiating the transaction. Normal cash receipt and cash disbursement transactions are entered using cash receipt (CR) and payment voucher (PV) documents. However, there are non-cash receipt and disbursement transactions, such as transfers or corrections, that are entered using other documents, such as cash adjustment (CA), expenditure correction (EX), intergovernmental voucher (IV), journal voucher (JV), and requests for transfer (TA) documents.

Appendix K, of the State of Delaware *Budget and Accounting Manual* defines these non-cash transactions as follows:

- CA – used to move actual cash from one appropriation to another; may only be used for appropriation types 20 (Nonappropriated Special Fund), 30 (Appropriated Special Fund), and 40 (Federal Grants).
- EX – used to adjust expenditure information, such as object code or appropriation (not the amount) after it has been entered into DFMS. The original information may have been generated by a payment voucher (PV), manual warrant (MW), or the Buyer portion of an intergovernmental voucher (IV). If the amount is to be adjusted, this must be done as a direct claim through a PV, if there was an underpayment, or as a CR if there was an overpayment.
- IV – used when the buyer and seller are State agencies. The IV permits transactions between agencies without the issuance of a check, via a PV, and the subsequent execution of a CR and bank deposit.
- JV – used by the Division of Accounting to record and document accounting events not covered by any other DFMS transaction. The offsetting entries are not generated by DFMS and therefore must be included on the JV.
- TA – submitted by an agency to the Budget Office and the Controller General, it requests a transfer of an appropriation or a Special Fund balance from one agency to another agency or from one organizational unit to another organizational unit within an agency and from one line to another line.

The following table summarizes, by document type, the number of documents processed Statewide and the dollar-value of those transactions Statewide for the period July 1, 2005 through February 28, 2006.

Document Type	# of Transactions	Dollar Amount (\$)
CA	2,065	336,925,284
EX	5,187	214,222,385
IV	1,150	-
TA	690	900,297,386
JV	834	559,612,429
<b>TOTAL</b>	<b>9,926</b>	<b>2,011,057,484</b>

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# OBJECTIVES, SCOPE, & METHODOLOGY

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## **OBJECTIVES**

There were three objectives of the Statewide Journal Entry Performance Audit:

- (1) To determine if the agencies/departments/divisions selected for testing have the internal control structure in place to ensure CA, EX, IV, JV, and TA transactions are in accordance with the State of Delaware *Budget and Accounting Manual*.
- (2) To determine if the agencies/departments/divisions selected for testing are using CA, EX, IV, JV, and TA documents in accordance with the State of Delaware *Budget and Accounting Manual*.
- (3) To analyze reasons CA, EX, IV, JV, and TA transactions are used by the agencies/departments/divisions and recommend how these transactions should be utilized in the new PeopleSoft financials.

## **SCOPE**

The scope of the performance audit included testing of CA, EX, IV, JV, and TA documents processed in DFMS during the period of July 1, 2005 through February 28, 2006 at various agencies/departments/divisions throughout the State.

The following agencies/departments/divisions and document types were selected for review:

DEPARTMENT	DIVISION	CA	EX	IV	TA	JV*
FINANCE	Division of Accounting					X
	Office of the Secretary	X				
EDUCATION (DOE)	Pupil Transportation				X	
	Block Grants	X	X		X	
	School District Operations				X	
	Cape Henlopen School District	X	X		X	
	Christina School District	X	X	X	X	
	Brandywine School District	X	X	X	X	
AGRICULTURE	Agriculture	X	X	X		
TECHNOLOGY AND INFORMATION (DTI)	Business	X		X		
	Chief Operating Officer	X				
	Chief Technology Officer	X				
HEALTH AND SOCIAL SERVICES (DHSS)	Administration	X			X	
	Child Support Enforcement	X				
	Public Health	X	X	X		
	Medicaid/Medical Assistance		X		X	
	Social Services		X		X	
	Developmental Disabilities Services			X	X	

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# OBJECTIVES, SCOPE, & METHODOLOGY

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DEPARTMENT	DIVISION	CA	EX	IV	TA	JV*
NATURAL RESOURCES AND ENVIRONMENTAL CONTROL (DNREC)	Air and Waste Management	X	X	X		
	Parks and Recreation	X	X	X		
OFFICE OF MANAGEMENT AND BUDGET (OMB)	Administration	X			X	
	Fleet Management	X		X		
	Insurance Coverage	X				
	Pensions	X				
	Facilities Management				X	
	Contingencies				X	

\* All JV's are initiated and processed by the Division of Accounting

This audit did not include federal funds journal entries.

The number of documents selected at each agency/department/division was dependent upon the respective internal control structure. For example, if one internal control structure was in place for all divisions selected within a particular department, one sample of each document type was selected and reviewed across all divisions. The following departments had one internal control structure for the divisions selected for review:

- DOE – Pupil Transportation, Block Grants, and School District Operations only
- DTI
- OMB

Note: The internal control structure was not reviewed at Christina School District as a result of high staff turnover and the DOE and OMB financial management review team acting in conjunction with the District's business office employees.

## **METHODOLOGY**

The audit was performed in accordance with Generally Accepted Government Auditing Standards (GAGAS) applicable to performance audits issued by the Comptroller General of the United States.

Audit procedures consisted of the following:

- Reviewing the agencies'/departments'/divisions' written policies and procedures relative to the document types selected for review at the respective agencies/departments/divisions.
- Interviewing staff involved in processing the document types selected for review at each agency/department/division.
- Testing of records and processes to confirm AOA's understanding and the effectiveness of controls; testing techniques included observation, inspection, inquiry, corroborative inquiry, and re-performance.
- Obtaining user access levels to the DFMS.
- Reviewing documents to determine the purpose of the transactions.
- Interviewing PeopleSoft financials general ledger project staff.



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# CONCLUSIONS

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## *Objective #1*

The first objective of the audit was to determine if the agencies/departments/divisions selected for testing have the internal control structure in place to ensure CA, EX, IV, JV, and TA transactions are in accordance with the State of Delaware *Budget and Accounting Manual*. AOA determined that, for all agencies/departments/divisions selected for review, the internal control structure is not adequate to safeguard the State's assets.

The Office of Auditor of Accounts determined that internal control weaknesses exist at both the oversight level and within the individual agencies/departments/ divisions. Brief summaries of these weaknesses are as follows:

- Most agencies/departments/divisions selected for review did not have internal written policies and procedures for the processing of journal entry-type transactions.
- Monthly reconciliations of DFMS activity are not performed consistently, if at all, throughout the agencies/departments/divisions.
- DFMS users throughout the agencies/departments/divisions reviewed have access to scan, enter, correct, and delete transactions, and apply both the first and second levels of approval in DFMS to these transactions. In addition, Cape Henlopen School District and DOE allow users to log onto DFMS as other users in order to apply the approvals necessary to process transactions.
- At several agencies/departments/divisions, there is one person who has the ability to prepare financial documents, sign the documents, enter the transaction into DFMS or OMS, apply approval in DFMS or OMS, and prepare the monthly reconciliations. In many cases, a person independent of the process does not review monthly reconciliations. These situations result in a lack of segregation of duties and an increase in control risk within the agencies/departments/divisions.
- Facsimile signature stamps were used as authorization on 68 transactions of the transactions reviewed. These transactions were valued at \$93,665,764.
- 1,371 transactions, valued at \$1,257,965,384, were reviewed at the agencies/departments/divisions selected. Of those transactions:
  - 318 transactions, representing \$265,380,494, did not have supporting documentation. In addition, five documents, valued at 743,473, could not be located.
  - 66 transactions, representing \$6,574,507, did not have proper authorization.

## *Objective #2*

The second objective of the audit was to determine if the agencies/departments/divisions selected for testing are using CA, EX, IV, JV, and TA documents in accordance with the State of Delaware *Budget and Accounting Manual (Manual)*. AOA determined that CA, EX, and IV documents were not consistently used based on the definitions in the *Manual*. Of the 1,371 transactions reviewed, 247 CA, EX, and IV transactions, representing \$34,854,579, were used inappropriately based on the definitions of the documents per the State of Delaware *Budget and Accounting Manual*.

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# CONCLUSIONS

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## *Objective #3*

AOA discussed the impact of DFMS' CA, EX, IV, JV, and TA transactions with the PeopleSoft Financial General Ledger Project Team. Based on discussions with the team and the results of our audit, the Division of Accounting needs to proactively address the following concerns:

- Consistency of processing similar transaction throughout the State.
- Indirect and cost allocation accounting throughout the State.
- Allowing flexibility in budgetary control versus line item spending.
- Controlling security access within the system to properly segregate duties and reduce the risk of misappropriation of funds.
- Ensuring journal entries made by agencies are made in the subledger and are directly related to the initial transaction that was processed.
- Centralizing all journal entries made directly to the general ledger.
- Allowing payroll appropriations to become negative throughout the year.
- Providing DFMS users with the accounting knowledge necessary to operate in PeopleSoft Financials.

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# FINDINGS AND RECOMMENDATIONS

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## ***Finding #1 – Written Policies and Procedures:***

Several agencies/departments/divisions selected for review of CA, EX, IV, and TA transactions do not have internal written policies and procedures regarding the processing of these transactions.

Chapter 2 of the State of Delaware *Budget and Accounting Manual* states, "a well designed system of controls must include written policies and procedures to ensure that each control objective is met." Internal Control - Integrated Framework, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), defines control activities as policies and procedures that help ensure that management's directives are carried out. Policies and procedures must be current to ensure management's control objectives are met.

The following is a list of agencies that do not have internal written policies and procedures regarding the processing of the transaction types reviewed:

- Cape Henlopen School District
- Department of Agriculture
- Department of Education (DOE)
- Department of Finance - Office of the Secretary
- Department of Health and Social Services (DHSS) - Administration
- DHSS - Child Support
- DHSS - Division of Developmental Disabilities Services (DDDS)
- DHSS - Medicaid/Medical Assistance
- DHSS - Public Health
- DHSS - Social Services
- Department of Natural Resources and Environmental Control (DNREC) - Air & Waste Management
- DNREC - Parks and Recreation
- Department of Technology and Information (DTI)
- Office of Management and Budget (OMB)

Written policies and procedures help promote effective accounting control over assets, liabilities, revenues, and expenditures. By not maintaining adequate policies and procedures for financial transactions, these agencies/departments/divisions have no true method of ensuring efficient and effective organizational operation.

## ***Recommendation:***

The Division of Accounting (DOA) should require that all State agencies/departments/divisions develop internal written policies and procedures regarding the processing of all financial transactions. The policies and procedures should include the following information:

- Appropriate uses of each type of document (i.e. why and when each of the documents is used).
- The nature of supporting documentation that is required to be maintained for each transaction.

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# FINDINGS AND RECOMMENDATIONS

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- Initiation/Processing of Transactions: Who is authorized to initiate the transactions.
- Review/Approval of Transactions: Who is authorized to review and approve the transactions.
- Data Entry: Individuals responsible for entering the transaction into DFMS.
- DFMS Approval: Individuals with authority to grant approval of the transaction in DFMS.
- Reconciliations: Who should complete and review reconciliations.

***Auditee Response:***

We agree with the recommendation. An Accounting Memo will be sent to all state organizations encouraging the development of organizational policies and procedures.

***Finding #2 – DFMS Reconciliations:***

While reviewing the monthly reconciliation process at each agency/department/division selected for testing, AOA determined that each agency/department/division reconciles DFMS activity differently.

The following types of reconciliations were being performed:

- Line-by-line reconciliations of DFMS activity.
- Reconciliation of only purchase order (PO) and/or grant balances.
- Reconciliation of DFMS and OMS balances, in total

Among the agencies/departments/divisions, AOA found that monthly reconciliations were not prepared, maintained, or reviewed by management at every agency/department/division, as detailed below:

- Reconciliations not prepared on monthly basis:
  - Department of Agriculture
  - DHSS - Medicaid/Medical Assistance
  - DHSS - Public Health
  - DHSS - Social Services
- Reconciliations not maintained by the agencies/departments/divisions:
  - DNREC - Parks and Recreation
  - DTI
- Reconciliations not reviewed by management:
  - Cape Henlopen School District
  - DNREC - Parks and Recreation
  - DOE
  - DTI

*Internal Control - Integrated Framework*, published by COSO, defines control activities as policies and procedures that help ensure that management's directives are carried out. Reconciliation controls are designed to detect if two items are consistent and are an integral part of any internal control structure.

Chapter XI, entitled Monthly Reconciliations, of the State of Delaware *Budget and Accounting Manual* does not give specific guidance for the preparation and review of monthly reconciliations. Therefore, the agencies/departments/divisions within the State have created their own definitions of monthly reconciliations.

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# FINDINGS AND RECOMMENDATIONS

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***Recommendation:***

OMB/DOA should update Chapter XI of the *Budget and Accounting Manual* to provide specific instructions regarding how monthly reconciliations should be prepared. The instructions should include guidance on (1) proper segregation of duties between the employees who process the transactions and those who prepare and review the reconciliations; (2) evidence of preparation, including requiring the preparer to sign and date the reconciliation as evidence of preparation of the document; (3) management review, including requiring the reviewer to sign and date the reconciliation as evidence of their review and approval; and (4) how the reconciliations should be prepared and retained, regarding both hardcopy and electronic formats.

***Auditee Response:***

We agree with the recommendation and will update the Budget and Accounting Manual accordingly.

***Finding #3 – DFMS User Access:***

DFMS users throughout the agencies/departments/divisions reviewed have access to scan, enter, correct, and delete transactions, and apply both the first and second levels of approval in DFMS to these transactions.

In addition, Cape Henlopen School District and DOE allow users to log onto DFMS as other users in order to apply the approvals necessary to process transactions. At Cape Henlopen School District, the Senior Financial Secretary logs onto DFMS as the Superintendent in order to approve transactions she has entered. At DOE, three secretaries maintain the DFMS passwords of the Associate Secretary of Finance and Administrative Services and the Director of Financial Management in order to apply approvals once one of those two individuals has signed the original, paper documents.

The agencies/departments/divisions that have a lack of segregation of duties regarding DFMS user access are:

- DOA
- Brandywine School District
- Cape Henlopen School District
- Department of Agriculture
- DOE
- Department of Finance - Office of the Secretary
- DHSS - Administration\*
- DNREC - Air and Waste Management
- DNREC - Parks and Recreation
- OMB

The State of Delaware *Budget and Accounting Manual*, Chapter II, states, "One of the basic and most successful methods of achieving internal control is through the segregation of duties. The segregation of duties divides the responsibility for a transaction or activity among different parties so that no one employee has complete control over the processing of transactions. This method of control increases the likelihood that if one person makes an error, another will discover it. Segregation of duties also reduces the risk that one person would perpetrate and/or conceal errors in the normal course of his or her duties."

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# FINDINGS AND RECOMMENDATIONS

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Because both DOA and the agencies/departments/divisions do not properly review DFMS user access for segregation of duties, there is a lack of segregation of duties within DFMS user access at each agency/department/division and there is no electronic control to ensure that the appropriate individuals properly approve transactions.

\* DHSS - Administration was the only DHSS division reviewed for DFMS access. The other DHSS divisions forward financial documents to the DHSS Controller's Office for entry into DFMS.

***Recommendation:***

Short-term: DOA and the agencies/departments/divisions review each DFMS user's access to determine that the user's access is consistent with that user's job duties and to ensure that there is a proper segregation of duties over the initiation, processing, and recording of financial transactions. In addition, DOA should discuss with the agencies/departments/divisions the impact that logging onto DFMS as another user has on the overall internal control structure.

Long-term: Lack of electronic segregation of duties should not be allowed when PeopleSoft Financials is implemented.

***Auditee Response:***

We agree with the recommendation. We will initiate a review of DFMS user access statewide and reflect in an accounting memo, the importance of segregation of duties and the confidentiality of security codes and access to DFMS and will update the Budget and Accounting Manual accordingly. The PeopleSoft financials system will provide segregation of duties through workflow of financial transactions.

***Finding #4 – Lack of Segregation of Duties:***

At several agencies/departments/divisions, there is one person who has the ability to prepare financial documents, sign the documents, enter the transaction into DFMS or OMS, apply approval in DFMS or OMS, and prepare the monthly reconciliations. In many cases, a person independent of the process does not review monthly reconciliations.

These agencies/departments/divisions include:

- Brandywine School District
- Cape Henlopen School District
- Department of Agriculture
- Department of Finance - Office of the Secretary
- DNREC - Air and Waste Management
- DNREC - Parks and Recreation

The State of Delaware *Budget and Accounting Manual*, Chapter II, states, "One of the basic and most successful methods of achieving internal control is through the segregation of duties. The segregation of duties divides the responsibility for a transaction or activity among different parties so that no one employee has complete control over the processing of transactions. This method of control increases the likelihood that if one person makes an error, another will discover it. Segregation of duties also reduces the risk that one person would perpetrate and/or conceal errors in the normal course of his or her duties."

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# FINDINGS AND RECOMMENDATIONS

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DOA, OMB, or the agencies/departments/divisions themselves do not monitor the internal control structure, including the existence of proper segregation of duties. As a result, a lack of segregation of duties regarding the processing of financial transactions exists among these agencies/departments/divisions.

***Recommendation:***

DOA should monitor the agencies/departments/divisions to ensure proper segregation of duties and work with the agencies/departments/divisions to ensure compliance with State of Delaware *Budget and Accounting Manual* segregation of duties requirements. In addition, the State of Delaware *Budget and Accounting Manual* should be revised to define and provide examples of proper segregation of duties.

***Auditee Response:***

We will reiterate the importance of segregation of duties to the state organizations and provide examples within the *Budget and Accounting Manual*. However, it is management's responsibility within each of the organizations to ensure compliance with the *Budget and Accounting Manual*.

***Finding #5 – Facsimile Signature Stamps:***

When processing financial transactions, such as CA, EX, IV, and TA documents, certain agencies/departments/divisions use facsimile signature stamps to denote approval of the transaction. This is done by the agencies/departments/divisions in compliance with current law. However, facsimile signature stamps are maintained and applied by someone other than the person whose signature is on the stamp.

The State of Delaware *Budget and Accounting Manual*, Chapter II, defines authorization as a control objective that should be used by management and financial managers. Authorization is defined as "ensuring that all transactions are approved by management."

Given the relative ease with which a person can replicate a signature stamp, the risk of unauthorized transactions increases and could lead to the misappropriation of assets when the stamps are not maintained by the person(s) whose signature(s) is (are) on the stamp(s).

DTI and DNREC - Air and Waste Management allow facsimile stamps to be used on financial documents. However, in performing our test work at these agencies, there were no instances noted where facsimile signature stamps were used.

# FINDINGS AND RECOMMENDATIONS

The following table details the number and dollar value of transactions approved via facsimile signature stamp at those agencies/departments/divisions that allow the use of such stamps.

Agency/ Department/Division	Document Type	Population		Sample		Approved with Facsimile Signature Stamp	
		#	\$	#	\$	#	\$
DOE	TA	361	797,407,041	70	709,847,676	46	84,236,927
DHSS - Administration	TA	4	2,850,946	4	2,850,946	4	2,850,946
DHSS - DDDS	TA	3	5,348,364	3	5,348,364	3	5,348,364
DHSS - Medicaid/Medical Assistance	TA	3	799,640	3	799,640	3	799,640
DHSS - Social Services	TA	2	153,000	2	153,000	2	153,000
OMB	TA	140	64,274,047	60	37,657,093	2	29,886
Department of Finance - Office of the Secretary	CA	10	25,286,004	10	25,286,004	1	130,000
OMB	IV	19	289,314	19	289,314	7	117,001

## ***Recommendation:***

DOA and OMB should mandate that facsimile signature stamps are not to be used as approval on documents because of the increased risk of unauthorized transactions being processed through the system and misappropriation of assets.

If facsimile signature stamps must be used, the person(s) whose signature is on the stamp(s) should apply the stamp(s) to the documents and maintain possession of and safeguard their own stamp(s). Title 29 Del. Code, Chapter 54, entitled “Uniform Facsimile Signatures of Public Officials Act,” should be amended to reflect this recommendation.

In addition, written policies and procedures should be revised to address proper authorization and approval procedures for all document types to ensure Statewide consistency in the transaction authorization and approval process.

## ***Auditee Response:***

We disagree with this recommendation. Facsimile signature stamps are authorized per 29 *Del. Code*, Chapter 54. The usage of a facsimile stamp is legal and necessary in numerous cases given business conditions. The use of a designee in no way limits the responsibility of the official for those transactions. Furthermore, inappropriate use of a facsimile signature is deemed forgery and punishable under forgery laws.

We will address the issues with document approval within the segregation of duties memo.



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# FINDINGS AND RECOMMENDATIONS

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***Auditor Comment:***

During the audit, we noted several instances where the same individual had the ability to apply a facsimile signature stamp to the paper document, enter the transaction into DFMS, and approve that transaction electronically in DFMS. This issue results in a lack of segregation of duties and increases the risk of misappropriation of assets.

***Finding #6 – Lack of supporting documentation:***

The following table summarizes the sample of transactions reviewed at the agencies/departments/divisions selected and the transactions that lacked proper supporting documentation:

Document Type	Sample		Errors	
	#	\$	#	\$
CA	436	141,177,930	230	56,981,109
EX	459	33,913,386	35	25,669,332
IV	260	4,526,356	1	21,528
JV	60	319,602,418	36	170,557,657
TA	156	758,745,294	16	12,150,868

In addition, three CA documents, valued at \$721,597; one EX document, valued at \$348; and one IV document, valued \$21,528 could not be located or an original could not be produced. The tables on the following pages detail the transactions with no supporting documentation and missing documents.

# FINDINGS AND RECOMMENDATIONS

Agency/ Department/Division	Population		Sample		No supporting documentation*	
	#	\$	#	\$	#	\$
<b><i>JV documents:</i></b>						
DOA	834	559,612,429	60	319,602,418	36**	170,557,657
<b><i>CA documents:</i></b>						
Brandywine School District	26	2,260,781	26	2,260,781	1	45,000
Christina School District	56	22,722,916	56	22,722,916	52	18,956,917
Department of Agriculture	52	2,454,389	52	2,454,389	48***	2,280,906
DOE	6	2,069,626	6	2,069,626	1	3,405
DHSS - Administration	23	2,873,011	23	2,873,011	22	2,863,011
DHSS - Child Support Enforcement	9	2,533,399	9	2,533,399	9	2,533,399
DHSS - Public Health	8	2,547,977	8	2,547,977	8	2,512,115
DNREC - Air and Waste Management	37	11,184,723	37	11,184,723	2	250,000
DNREC - Parks and Rec.	144	8,147,897	60	3,990,663	60	3,990,663
OMB	256	53,748,810	60	42,991,250	27	23,545,693
<b><i>EX documents:</i></b>						
Christina School District	122	31,033,947	64	25,402,045	28	24,771,518
DHSS – Public Health	162	2,216,725	60	553,107	1	348
DHSS - Medicaid/Medical Assistance	6	1,449,931	6	1,449,931	2	772,907
DNREC - Parks and Rec.	51	1,000,264	51	1,000,264	4	124,559
<b><i>IV documents:</i></b>						
OMB	19	289,314	19	289,314	1	21,528
<b><i>TA documents:</i></b>						
DOE	361	797,362,041	70	709,847,676	3	5,066,588
DHSS - Administration	4	2,850,946	4	2,850,946	2	2,683,145
DHSS - Medicaid/Medical Assistance	3	799,640	3	799,640	2	793,640
OMB	140	64,274,047	60	37,657,093	9	3,607,495

\* There were many agencies that only provided the hardcopy of the document itself or DFMS screen prints as supporting documentation. AOA does not consider the hardcopy of the document or DFMS screen prints to be appropriate supporting documentation.

\*\* DOA does not require agencies/departments/divisions to submit supporting documentation with JV documents. DOA also processes JV transactions, such as those to balance DFMS and PHRST, which would not have supporting documentation.

\*\*\* 33 of these documents, representing \$949,336 in transactions, did not have an explanation of the transaction on the document.

# FINDINGS AND RECOMMENDATIONS

Agency/ Department/Division	Population		Sample		Missing Documents	
	#	\$	#	\$	#	\$
<b>CA documents:</b>						
Christina School District	56	22,722,916	56	22,722,916	2	591,597
DHSS - Public Health	8	2,547,977	8	2,547,977	1*	130,000
<b>EX documents:</b>						
DHSS - Public Health	162	2,216,725	60	553,107	1	348
<b>IV documents:</b>						
OMB	19	289,314	19	289,314	1	21,528

\* This CA document was booked to DHSS – Public Health, but was created by another State agency. DHSS – Public Health did not receive a copy of this document for their records.

*Internal Control - Integrated Framework*, published by COSO, defines control activities as policies and procedures that help ensure management directives are carried out. Control activities occur throughout an organization, at all levels and functions, and include a wide range of activities, such as authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties. To ensure control activities meet the objectives of management, supporting documentation for all such activities should be referred to or maintained with the financial documents.

Inadequate guidance within the State of Delaware *Budget and Accounting Manual* has led some agencies/departments/divisions to believe that supporting documentation should only be maintained for revenue and expenditure transactions.

## **Recommendation:**

DOA and OMB should update the State of Delaware *Budget and Accounting Manual* to provide guidance to ensure that adequate supporting documentation is maintained for all financial documents processed by the State. Adequate supporting documentation should be defined as invoices, logs, worksheets, memos, or additional documentation that provides support for the purpose and amount of the transaction.

In addition, DOA should either (1) allow the agencies/departments/divisions to apply the third level of DFMS approval for JV transactions or (2) require the agencies/departments/divisions to submit adequate supporting documentation for JV transactions and review the documentation before applying the third level of approval.

## **Auditee Response:**

We agree with the recommendation. The *Budget and Accounting Manual* will be updated to include guidance for supporting documentation for financial documents. The Division of Accounting will review central agency JV transactions and decide whether to allow the application of the third level of approval by the organization or require supporting documentation before Accounting's application of the third level of approval.

# FINDINGS AND RECOMMENDATIONS

## ***Finding #7 – Lack of proper authorization:***

The following table summarizes the sample of transactions reviewed at the agencies/departments/divisions selected and the transactions that lacked proper authorization:

Document Type	Sample		Errors	
	#	\$	#	\$
CA	436	141,177,930	6	2,334,600
EX	459	33,913,386	5	3,363,004
IV	260	4,526,356	54	626,903
JV	60	319,602,418	-	-
TA	156	758,745,294	1	250,000

The table below details the transactions without proper authorization.

Agency/Department/Division	Population		Sample		No authorization	
	#	\$	#	\$	#	\$
<b><i>CA documents:</i></b>						
Christina School District	56	22,722,916	56	22,722,916	3	1,750,000
DHSS - Administration	23	2,873,011	23	2,873,011	1	5,700
DNREC - Air and Waste Management	37	11,184,723	37	11,184,723	2**	578,900
<b><i>EX documents:</i></b>						
Cape Henlopen School District	139	968,973	60	525,245	1	665
Christina School District	122	31,033,947	64	25,402,045	3	3,340,339
DNREC - Parks and Recreation	51	1,000,264	51	1,000,264	1	22,000
<b><i>IV documents:</i></b>						
Brandywine School District	375	-	60	45,219	5***	9,686
DHSS – DDDS	49	-	49	617,217	49	617,217
<b><i>TA documents:</i></b>						
Brandywine School District	6	1,628,147	6	1,628,147	1*	250,000

\* 1 TA not signed by the Controller General's office

\*\* 1 CA document was initialed. However, the signature line was not complete.

\*\*\* Agency/Department/Division policy required more signatures than the State of Delaware *Budget and Accounting Manual*. These documents did not have the correct number of signatures as required by internal policy.

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# FINDINGS AND RECOMMENDATIONS

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*Internal Control - Integrated Framework*, published by COSO, defines control activities as policies and procedures that help ensure that management's directives are carried out. Management review controls are defined as the activities of a person different than the preparer analyzing and performing oversight of activities performed and its integral part of any internal control structure.

The lack of authorization on these financial documents, which is caused by oversight on the part of the agency/department/division and a lack of enforcement by DOA, could lead to the misappropriation of assets.

***Recommendation:***

DOA/OMB should revise the State of Delaware *Budget and Accounting Manual* to address the need for appropriate authorization on all financial documents. In addition, paper financial documents should be modified to require two signatures on all documents, instead of one. Adding another signature line to these documents will help segregate duties.

***Auditee Response:***

The new release of the *Budget and Accounting Manual* will address the appropriate authorization of financial documents. We will also review financial documents to determine if another signature block on all documents is necessary for segregation of duties.

***Finding #8 – Inappropriate use of documents:***

The following table summarizes the sample of transactions reviewed at the agencies/departments/divisions selected and the transactions that were used inappropriately based on the definitions of the documents per the State of Delaware *Budget and Accounting Manual*:

Document Type	Sample		Errors	
	#	\$	#	\$
CA	436	141,177,930	11	5,378,370
EX	459	33,913,386	195	26,841,399
IV	260	4,526,356	41	2,634,810
JV	60	319,602,418	-	-
TA	156	758,745,294	-	-

# FINDINGS AND RECOMMENDATIONS

The table below details the transactions that were processed on inappropriate documents.

Agency/Department/Division	Population		Sample		Inappropriate Use of Document	
	#	\$	#	\$	#	\$
<b>CA documents:</b>						
Cape Henlopen School District	52	8,070,279	52	8,070,279	2	125,277
Christina School District	56	22,722,916	56	22,722,916	3	3,620,701
Brandywine School District	26	2,260,781	26	2,260,781	5	1,342,862
DTI	37	12,192,912	37	12,192,912	1	289,530
<b>EX documents:</b>						
Cape Henlopen School District	139	968,973	60	525,245	26	476,725
Christina School District	122	31,033,947	64	25,402,045	24	21,030,902
Brandywine School District	213	7,621,848	60	1,162,308	10	815,088
Department of Agriculture	92	360,314	60	241,744	34	99,301
DHSS - Public Health	162	2,216,725	60	553,107	15	385,158
DHSS - Medicaid/Medical Assistance	6	1,449,931	6	1,449,931	3	1,367,113
DHSS - Social Services	17	2,857,931	17	2,857,931	11	2,289,027
DNREC - Air and Waste Management	765	3,448,640	60	259,092	58	222,868
DNREC - Parks and Recreation	51	1,000,264	51	1,000,264	14	155,217
<b>IV documents:</b>						
DHSS - Public Health	45	-	45	2,637,801	40	2,634,409
DNREC - Parks and Recreation	60	-	60	273,705	1	401

Appendix K of the State of Delaware *Budget and Accounting Manual* defines CA, EX, and IV documents as follows:

- CA (cash adjustment) – used to move actual cash from one appropriation to another; may only be used for appropriation types 20 (Non-appropriated Special Fund), 30 (Appropriated Special Fund), and 40 (Federal Grants).
- EX (expenditure correction) – used to adjust expenditure information, such as object code or appropriation (not the amount) after it has been entered into DFMS. The original information may have been generated by a payment voucher (PV), manual warrant (MW), or the Buyer portion of an intergovernmental voucher (IV). If the amount is to be adjusted, this must be done as a direct claim through a PV, if there was an underpayment, or as a CR if there was an overpayment.

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# FINDINGS AND RECOMMENDATIONS

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- IV (intergovernmental voucher) – used when the buyer and seller are State agencies. The IV permits transactions between agencies without the issuance of a check, via a PV, and the subsequent execution of a CR and bank deposit.

CA, EX, and IV documents were inappropriately used as follows:

- CA documents were used to:
  - Transfer funds from School Districts to Charter Schools
  - Transfer funds from one department to another
- EX documents were used to:
  - Recode SuperCard IV documents
  - Recode Fleet charges
  - Recode phone bills
  - Recode salaries
  - Recode expenditures to other appropriations
  - Recode expenditures paid for other agencies/departments/divisions
  - Transfer funds from appropriations
- IV documents were used to:
  - Transfer funds from/to patient trust funds
  - Correct salaries

The documents are used inappropriately because (1) there are no documents within DFMS whose definitions include the transactions processed and (2) some agencies/departments/divisions, whether intentionally or unintentionally, misinterpret the use of the documents.

***Recommendation:***

***Short-term:*** DOA/OMB should update the document definitions in the State of Delaware *Budget and Accounting Manual* to reflect how documents are actually used in the system. DOA should review transactions to ensure they are being processed in accordance with the definitions in the State of Delaware *Budget and Accounting Manual*.

***Long-term:*** AOA discussed the impact of DFMS' CA, EX, IV, JV, and TA transactions with the PeopleSoft Financial General Ledger Project Team. Based on discussions with the team and the results of our audit, DOA needs to proactively address the following concerns:

- Consistency of processing similar transactions throughout the State.
- Indirect and cost allocation accounting throughout the State.

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# FINDINGS AND RECOMMENDATIONS

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- Allowing flexibility in budgetary control versus line item spending.
- Controlling security access within the system to properly segregate duties and reduce the risk of misappropriation of funds.
- Ensuring journal entries made by agencies are made in the subledger and are directly related to the initial transaction that was processed.
- Centralizing all journal entries made directly to the general ledger.
- Allowing payroll appropriations to become negative throughout the year.
- Providing DFMS users with the accounting knowledge necessary to operate in PeopleSoft Financials.

DOA and OMB need to clearly define the types of transactions that will be input into PeopleSoft Financials via journal entry. The guidance needs to be detailed enough to allow consistency among all agencies/departments/divisions, but also needs to allow for flexibility for unforeseen events. The guidance should include: why journal entries are made, who enters and approves journal entries, what supporting documentation is required for journal entries, and how journal entries are made in the system.

Indirect costs and cost allocations are done at all State agencies/departments/divisions; however, policies and procedures are not consistent. This impacts the consistency and integrity of data in the general ledger. DOA should develop guidance and training regarding indirect costs and cost allocation in PeopleSoft Financials.

PeopleSoft Financials should allow “parent” and “child” appropriation codes in appropriate circumstances. This will eliminate the need for the agencies/departments/divisions to make journal entries to move expenditures between holding accounting and spending accounts. In this model, budgetary control will remain at the “parent” appropriation, but spending can be done at the “child” appropriation as long as there are funds in the “parent” appropriation.

PeopleSoft Financials should not allow the same individual to have input, edit, and approval access. Electronic security is only an internal control if proper segregation of duties exists within system access.

The integrity of the PeopleSoft Financials subledgers should be maintained. Journal entries should be made directly to the subledger at the agency/department/division level. In addition, known updates to payroll should be made directly to Payroll Human Resource Statewide Technology (PHRST), the payroll subledger. The subledger should not allow data to be posted to the general ledger if data is not accurate and complete. This system edit should occur prior to the subledger accepting the transaction. To maintain the integrity of the data in the general ledger, all journal entries made to the general ledger should be made centrally by DOA. All journal entries made by the agencies/departments/divisions should have adequate support (cost allocation spreadsheet, original PV with error, original payroll report that was coded incorrectly, etc.) and should always relate directly to the original transaction.

Currently, if there are not enough funds in the payroll appropriations in DFMS, payroll is sent from PHRST to a DFMS payroll kicker account. The agency will then need to make a journal entry to move the payroll expenditure from the payroll kicker account to an appropriation with funds. Allowing payroll to post to payroll appropriations even if funds are not available can eliminate this process. If DOA allows this to occur, DOA and/or OMB will have to monitor these accounts. Timeframes should be set-up to



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# FINDINGS AND RECOMMENDATIONS

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determine when the funds need to become available within these appropriations to cover the payroll and when the payroll will need to be moved if the agency doesn't believe funds are going to become available. This will eliminate recoding as a result of waiting for grant funds and local school taxes.

A large number of the State's employees are nearing retirement or are eligible for retirement. The State may face challenges in replacing employees involved in the current process. Currently, there are approximately 1,400 users that have the capability to complete financial transactions in DFMS. Many of these users are accounting clerks and do not have the accounting knowledge necessary to operate in the PeopleSoft environment. The result will be increased education and training costs and an inherent weakness in the internal control structure.

***Auditee Response:***

DOA/OMB will review the definition of each financial document and update the *Budget and Accounting Manual*, if needed. Long-term, we will take these recommendations into consideration as we plan for the implementation of the PeopleSoft financials system.

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# DISTRIBUTION OF REPORT

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Copies of this report have been distributed to the following public officials:

## Executive

The Honorable Ruth Ann Minner, Governor, State of Delaware  
The Honorable Richard S. Cordrey, Secretary, Department of Finance  
The Honorable Jennifer W. Davis, Director, Office of Management and Budget  
The Honorable Valerie Woodruff, Secretary, Department of Education  
The Honorable Michael T. Scuse, Secretary, Department of Agriculture  
The Honorable Thomas M. Jarrett, Secretary, Department of Technology and Information  
The Honorable Vincent P. Meconi, Secretary, Department of Health and Social Services  
The Honorable John Hughes, Secretary, Department of Natural Resources and Environmental Control  
Ms. Trisha Neely, Director, Division of Accounting, Department of Finance

## Legislative

The Honorable Russell T. Larson, Controller General, Office of the Controller General

## Other Elective Offices

The Honorable Carl C. Danberg, Attorney General, Office of the Attorney General  
The Honorable Jack Markell, Treasurer, State Treasurer's Office

## Other

Dr. George Stone, Superintendent, Cape Henlopen School District  
Dr. Lillian Lowery, Superintendent, Christina School District  
Dr. Dane A. Brandenberger, Acting Superintendent, Brandywine School District